

“The Actually-Existing Welfare State in the USA and One Possible
Transformation to a Basic Income”

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Abstract

This paper updates my chapter in *Basic Income and the Free Market*, Nell, editor (2013) where I devise a methodology to divide US government expenditures for Fiscal Year 2010 into two categories, “basic government” and the “welfare state” and find that the welfare state is approximately 61% of US government expenditures and therefore around 15% of the US economy. Then using 2010 census data I find that we could replace this actually- existing welfare state with a Basic Income of \$1,000 per month to everyone age 18 years and older (a universal Basic Income at above the poverty rate in most US geographic locations) at the same cost as the existing welfare state. My proposal for the 2017 Basic Income Guarantee Congress is to update this Basic Income estimate with the most recent data, for Fiscal Year 2015, in order to provide a fresh estimate for replacing the actually-existing welfare state with a universal Basic Income. Following other authors, the ethical premise for replacement of the actually-existing welfare state with a universal Basic Income is that the former goes to certain people and the latter would go to everyone equally. The 2015 results also show a Basic Income of around \$1,000 per person years eighteen and over.

Introduction and methodology

This research makes a very broad assumption, and that is that all US government spending which is not used for “basic government” is in one form or another the “welfare state.” The point of this assumption is that hypothetically we could replace this actually-existing welfare state with a Basic Income. We calculate this welfare state measure for the United States for the year 2015 and hypothesize the resulting Basic Income holding costs constant. The political philosophy behind replacing the existing welfare state with a Basic Income is that *everyone* would receive the Basic Income, whereas currently only *certain people* receive corporate and/or social welfare. Therefore, a Basic Income, along with tax reform to be described later, will create equality under a rule of law rather than the current discretionary power of rule-makers under a special interest welfare state.

We begin by defining “basic government”, then describe the “welfare state”. Next, we calculate our hypothetical Basic Income and determine the tax rates applicable for generality and equality under law for the revenue-side as is the Basic Income on the expenditure side.

Basic Government

The category “basic government” covers federal organizations which in general enforce the rule of law, diplomatic presence and the funding of the executive branch, courts and congress. See Table 1 for category classifications.¹ We also include the category “military-security complex” as part of government, as most economists agree national defense is a proper role for the nation-state, albeit the USA has an especially large domestic security program, especially after 9/11. So, we are being conservative in our accounting here as of course many of these programs might be counted as corporate welfare.

We find that the largest expenditures under basic government are Department of Defense military programs and the Department of Treasury (which includes federal debt payments and contributions to international organizations). We have classified Veterans Affairs, Other Civil Defense Programs and the Department of Homeland Security as “military-security complex,” to account for these domestic programs differently than basic government, but we add basic government together with

¹ We can also call this “basic government” *President George Washington’s government* as the departments listed under basic government, see Table 1, were those created by Washington as the first US president, and which were the only departments until President Zachary Taylor created the Department of Interior in 1849. For more on the growth of the federal state and the federal welfare state see Weber 2013.

these programs to determine what is government and what is not welfare, again under the assumption defense and homeland security, however bloated or obtrusive, are public goods as is “basic government.”² These two categories together we can call *government*, which we can juxtapose with *welfare*.

The Welfare State

We might find criticism of the classification methodology used in this research under the “welfare state” category. It may be clear to most that the two largest components of social welfare, the Department of Health and Human Services (HHS, the department which handles Medicare, Medicaid and the Affordable Care Act of 2010) and the Social Security Administration (retirement and some disability programs) are correctly deemed social welfare, but why is the Environmental Protection Agency (EPA) classified as “corporate welfare”? This is because the EPA gives grants to certain firms for research and development, and not to all firms. Or, using a public choice argument, certain firms may have more lax regulatory requirements than do their competitors due to regulatory capture within the EPA. Also, it is popularly known that agricultural subsidies go to large agri-business (the Department of Agriculture is the largest outlay under the corporate welfare category), but why is the Department of Education considered “social welfare” when many of their programs may be considered business-oriented?

There can be strong disagreements as to the individual classification of departments into social or corporate welfare, but the theoretical argument for placing these departments as *welfare* as opposed to *government* is because the outlays do not meet the ideal of generality and equality under law. Welfare outlays are not given to everyone in the polity equally nor are they part of what we are calling basic government and the military-security complex under a public good generality. As the title to this paper reads, this paper provides just one possible road to a Basic Income, there are many others.

Further once we open-up debate on whether one department might best be placed under government rather than welfare, this argument ends with no theoretical foundation at all as obviously at one time or another in US history politicians (and the rationally-ignorant median voter) must have considered these welfare (transfer)

² Reducing expenditures on military-security complex programs would reduce the general and equal tax rate as found later in this paper.

programs as the “public good”.³ The point of the present research is to theorize about potential future alternatives and not to debate the political past.

Table 1.⁴

United States Government (USG) Fiscal Year 2015 Outlays	(\$'s millions)
Basic Government	
Dept of Defense - Military Programs	511,828
Dept of Treasury	411,877
Dept. of Justice	24,482
Dept. of State	24,111
Judicial Offices	6,494
Legislative Branch	3,940
Executive Office of the President	361
A. Total	983,093
Military-security complex	
Dept. of Veteran Affairs	144,874
Other Defense Civil Programs	57,294
Dept. of Homeland Security	38,738
B. Total	240,906
Corporate Welfare	
Dept. of Agriculture	126,583
Dept. of Commerce	81,151
Dept. of Transportation	68,631
Dept. of Energy	23,134
International Assistance Programs	19,063
National Aeronautics and Space Admin. (NASA)	16,622
Dept. of the Interior	11,228
Environmental Protection Agency	6,376
National Science Foundation	6,221
Corp of Engineers - Civil Works	6,083
Small Business Administration	-678
C. Total	364,414
Social Welfare	
Dept. of Health and Human Services	934,947
Social Security Admin.	859,073
Dept. of Education	81,919
Dept. of Labor	41,144
Dept. of Housing and Urban Development	32,327
D. Total	1,949,410
Overhead	
Office of Personnel Management	83,470
General Services Administration	809
E. Total	84,279
F. Total USG Outlays FY 2015	3,622,102
G. Total USG Outlays without Overhead (A + B + C + D)	3,537,823
H. Welfare State without Overhead (C + D)	2,313,824
I. Welfare State % of Total USG Outlays (H / G)	65%
J. Welfare State Overhead Allocation (E * I)	54,781
K. "Welfare" (Welfare State plus Overhead (H + J))	2,368,605
L. Basic Government plus Military-industrial without Overhead (A + B)	1,223,999
M. Basic Government plus Military-industrial % Total USG Outlays without Overhead (L / G)	35%
N. Basic Government plus Military-industrial share of Overhead (E * G)	29,158
O. "Government" (Basic Government plus Military-industrial with Overhead (L + N))	1,253,157

³ Weber (2013) also makes similar calculations for the year 2010, however it is not possible to accurately compare 2010 results with our 2015 results here due to a change in the way the US government reports fiscal year outlays. Currently the reporting methodology under-reports outlays relative to 2010 when expenditures are aggregated, it is not clear to the present author why this is so.

⁴ Outlay data for Table 1 is taken from InsideGov.com, accessed 3/1/2017.

Calculating the Basic Income

We find from Table 1 that the welfare state is 65% of US government outlay in Fiscal Year 2015 (line I) and that basic government and the military-security complex is 35% of the US government for the same period (line M). Following our methodology and hypothetical assertions, we might replace 65% of the US government spending of \$3.6 trillion in 2015 with a Basic Income.

In Table 2 we calculate the Basic Income, assuming that everyone in the USA eighteen years and older will receive the Basic Income. This means that around 77% of the population would be eligible for the BI and the BI would be just under \$10,000 per year per person, or, 83% of the poverty level for 2015. Therefore a Basic Income would raise the income of *everyone* in the USA to 83% of the poverty level, as opposed to welfare, both corporate and social, going to *certain people* as it does now.⁵ There will be a transformation in the social safety net to one of generality and equality under law.

Table 2.⁶

	Calculation of Hypothetical Basic Income	Fiscal Year 2015
A.	US Population 2015	316,515,021
B	Percentage of population 18 years and older	76.7%
C.	Population 18 years and older (A * B)	242,767,021
D.	Outlays on Welfare and Welfare Overhead Share	\$2,368,605,000,000
	Welfare outlays per person 18 years and older,	
E.	this figure is our hypothetical Basic Income (D / C)	<u>\$9,757</u>
F.	Poverty Level for Lower 48 States	\$11,770
G.	Basic Income as Percentage of Poverty Level (E / F)	83%

⁵ It should be noted that this paper does not factor in state and local level welfare state programs. Many of these are partly if not mostly covered by transfers from the federal state. However we might expect that local poverty programs might fill-in the gap between personalized, local poverty and the federal basic income. These local decisions would contain more knowledge than welfare decisions deriving from the federal technocracy and therefore we might expect the results of these decisions to be more efficient than under the current welfare state. This paper also does not analyze the difficulty of transforming the actually-existing welfare state into a Basic Income and the expected push-back from those with vested interests in the status quo. See Boettke and Martin (2012) an analysis of these difficulties.

⁶ Population data is from the US Census Bureau, welfare state outlay data is from Table 1 of this paper, line D and the poverty level is from HHS.

Generality and equality under tax law with a hypothesized Basic Income

We have made our Basic Income general and equal under law, so to be consistent to the same ideal we propose the same for the revenue side of replacing welfare with a Basic Income. In Table 3 we show this analysis. If we were to replace the actually-existing welfare state with our categories government and basic income (as derived above) we find that, keeping outlays the same as they were in 2015, we would need a tax of 19% (the US government in 2015 was 19% of the economy). This tax, which would be the same for everyone aged eighteen and over, could be a personal tax on income or a value-added tax (VAT) on expenditures which comprise National Income (GDP).⁷

Table 3.⁸

Calculation of Tax Rates for Government and Basic Income Based for 2015				
	Population 18 Years and Older	National Income	Outlays	Tax Rate
Government	242.8 million	\$18.9 trillion	\$1.2 trillion	6.3%
Basic Income	242.8 million	\$18.9 trillion	\$2.4 trillion	12.7%
Government and Basic Income	242.8 million	\$18.9 trillion	\$3.6 trillion	19.0%

Conclusion

In this paper we have calculated the actually-existing welfare state in the USA for the year 2015 and have categorized these expenditures as *government* (6.3% of the economy and 35% of US government outlays) and *welfare* (12.7% of the economy and 65% of US government outlays). We hypothesize that we could replace this welfare of almost 13% of the economy with a Basic Income. We also propose a single tax to pay for this hypothetically transformed US federal government, under the same ideal as the generality and equality of the Basic Income. We conclude now by suggesting that a Basic Income, transfers of known amounts of cash equally to everyone eighteen years and older, would be more economically

⁷ This idea simplifies greatly the burdensome US tax code, there would be just this single federal tax to replace all other federal taxes.

⁸ National income data from bea.gov, population data from Table 2 of this paper, line C, outlay data from Table 1 of this paper and the tax rate is calculated by dividing outlays by national income.

efficient than the federal technocracy setting transfer amounts as in the actually-existing welfare state.

References

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